

Message Text

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ACTION AID-20

INFO OCT-01 NEA-10 ISO-00 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 IO-14 NSC-10 SS-20

STR-08 CEA-02 L-03 H-03 DODE-00 PA-04 USIA-15 PRS-01

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SUBJ: INFORMAL MEETING OF AID DONOR REPS

WITH WORLD BANK TEAM

1. SUMMARY. IN MEETING WITH AID DONOR REPRESENTATIVES
DEC 20, WORLD BANK TEAM SET
FORTH ONLY TENTATIVE OBSERVATIONS BUT LEFT
IMPRESSION REPORT WOULD BE RELATIVELY POSITIVE
IN TONE. END SUMMARY.

2. CHARGE AND AID REP (ACTING)
ATTENDED INFORMAL GATHERING OF SEVEN AID DONOR
REPS AND UNDP OFFICIALS AT BRITISH
HIGH COMMISSIONERS RESIDENCE IN HONOR OF
WORLD BANK TEAM DEC 20, EVE OF THEIR
DEPARTURE. AS HAS BECOME CUSTOMARY IN RECENT
PAST, FUNCTION ENDED WITH PRELIMINARY STATEMENT
BY TEAM CHIEF HAWKINS FOLLOWED BY QUESTIONS
FROM ASSEMBLED GROUP.

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3. SUBSTANTIVELY, HAWKINS STATED THAT AFTER THREE
WEEKS INTENSIVE REVIEW, SOMEWHAT BROADENED FROM
PRIOR YEARS TO INCLUDE SOCIAL AND POLITICAL CONSID-
ERATIONS, HE WAS NOT PREPARED OFFER DEFINITIVE

JUDGMENTS FOR TWO MAJOR REASONS: A) LACK OF FINAL DATA IN TWO SIGNIFICANT RESPECTS (LEVEL OF OIL PRICES NOW UNDER NEGOTIATION AND EFFECT OF WEATHER ON MAHA CROP FORECAST WHICH WOULD HAVE DIRECT IMPACT ON FOOD IMPORTS); AND B) ABSENCE OF CONTACT AT GSL MINISTERIAL LEVEL OR ABOVE EXCEPT FOR BRIEF MEETING WITH FINANCE MINISTER. WITH THESE CAVEATS, HAWKINS OFFERED FOLLOWING OBSERVATIONS:

4. ONE HAD TO RECOGNIZE GSL'S "POLITICAL BRAVERY" IN REDUCING PURCHASING POWER OF PEOPLE BY A FACTOR, NOT YET FULLY EVALUATED, WHICH WAS HIGHER THAN COULD HAVE BEEN EFFECTED IN ANY COUNTRY REPRESENTED AT MEETING. HOWEVER, THE SUBSIDY CUT AND REDUCED IMPORTS OF FOOD WOULD BE "OVERSHADOWED" BY FURTHER INCREASES IN WORLD PRICES (WITH OIL A NEWLY ADDED FACTOR). HE WENT ON TO POINT OUT THAT BALANCE OF PAYMENTS SITUATION, THOUGH CONSERVATIVELY DEPICTED IN BUDGET, REMAINED DIFFICULT, WITH STRONG LIKELIHOOD OF FURTHER DEEPENING OF FINANCIAL CRISIS UNLESS FOREIGN AID WERE FORTHCOMING. WITH RESPECT TO GSL NATIONAL DEBT, BY MACRO-ECONOMIC STANDARDS IT WAS NOT EXCESSIVELY HIGH AND SEEMED TO BE MANAGED WELL. THUS HE CONSIDERED IT WAS NOT A PROBLEM OF ITSELF BUT ONLY ONE ASPECT OF FINANCIAL SITUATION.

5. TEAM CONCLUDED THERE HAD BEEN SIGNIFICANT DEPRECIATION OF CAPITAL PLANT AND CONSEQUENT FAILURE TO ALLEVIATE UNEMPLOYMENT SITUATION BECAUSE RATE OF INVESTMENT WAS UNSATISFACTORY. THIS REMAINED A KEY TO EFFECTIVENESS OF SOCIAL IMPROVEMENT MEASURES BECAUSE OF ENDEMIC NATURE OF PROBLEM. HAWKINS MENTIONED THAT GSL INTENDED TO REVIEW FIVE YEAR PLAN IN MIDDLE OF 1974 AND SAID IT WAS CLEARLY NECESSARY THAT PLAN BE EXTENDED SINCE IT WAS ONE-AND-ONE HALF YEARS BEHIND IN IMPLEMENTED OFFICIAL USE

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MENTATION AND INCREASES IN WORLD PRICES THAT HAD OCCURRED SINCE ITS PUBLICATION MADE IT COMPLETELY UNREALISTIC.

6. IN DISCUSSION OF FOOD PRODUCTION EFFORT, HAWKINS SPOKE OF SHORT-TERM EFFECT IN TERMS OF INCREASED RICE AND SUBSIDIARY CROP PRODUCTION, INDICATING THIS SEEMED PRINCIPAL FOCUS OF GSL PLANNERS. RE LONGER TERM, THERE WAS NEED OF DONOR-SUPPORTED FOREIGN EXCHANGE-FINANCED INPUTS. HE CITED REQUIREMENT OF IMPROVED MANAGEMENT, ESPECIALLY IN AGRICULTURAL SECTOR DESPITE PRO-

MISING BEGINNING IN CREATING GOOD INFRASTRUCTURE THERE, AND STATED THAT SOME TECHNICAL ASSISTANCE MIGHT BE USEFUL IN THAT REGARD, IF ACCEPTABLE TO GSL. HAWKINS ALSO SAID GSL NEEDED AID TO COMPENSATE FOR REDUCED EARNINGS FROM PLANTATION AGRICULTURE, ESPECIALLY TEA AND RUBBER, DURING HIGH INVESTMENT, LOW INITIAL RETURN PERIOD NEEDED TO INCREASE COMPETITIVENESS OF THIS SECTOR. TO EXPORT SECTOR PLANNERS SEEMED TO DEVOTE LESS THAN ADEQUATE ATTENTION, ACHIEVING SOME SUCCESS IN MOVING UPWARD FROM SMALL BASE IN GEMS. TOURISM PLANNING, HE SAID, IS NOTABLE EXCEPTION BECAUSE, AS PLANNED, FOREIGN EXCHANGE EARNINGS ARE MEETING TARGETS WITH VERY SMALL IMPORT COMPONENT.

7. IN PRIVATE SECTOR, THERE APPEARED TO BE TOO LITTLE INCENTIVE AND PERHAPS DISINCENTIVE TO OTHER THAN EXPORT-ORIENTED INVESTMENT. HAWKINS CITED CONVERTIBLE RUPEE ACCOUNT AS PRINCIPAL INCENTIVE TO EXPORTERS. HE MENTIONED REPORTS THAT GSL EXPECTED TO SHIFT POLICY TOWARD MORE COOPERATION WITH PRIVATE SECTOR, BUT TEAM HAD NOT SEEN FIRM INDICATIONS. IN SUMMARY, HAWKINS LEFT IMPRESSION THAT AT LEAST PARTLY BECAUSE SRI LANKA WAS CLEARLY CONFORMING TO WORLD BANKS NEWLY ADDED SOCIAL BENEFIT CRITERION, GSL APPEARED TO BE AN INTERESTING PROSPECT FOR ASSISTANCE IN GETTING ITS ECONOMY OUT OF PRESENT CONDITION, DESCRIBED AS "BUMPING ALONG ON THE BOTTOM".

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8. QUESTION PERIOD DEALT WITH NEED OF TECHNICAL ASSISTANCE IN AGRICULTURE, WHICH HAWKINS CLARIFIED AS NOT SO MUCH A BROAD SPECTRUM REQUIREMENT BUT AS MORE PINPOINTED ONE TO FILL GAPS APPARENT NOW AND INCREASINGLY RECOGNIZED BY RESPONSIBLE GSL LEADERS. WHEN QUESTIONED ABOUT RECURRING FORECAST OF FOREIGN EXCHANGE CRISIS DESPITE RECENT IMPROVEMENTS IN FOREIGN EXCHANGE BALANCES, IT BECAME CLEAR THAT TEAM CONSIDERED GSL WAS DOING GOOD JOB OF MANAGING ITS FOREIGN EXCHANGE BUT THAT PROSPECTS FOR CRITICAL SITUATION HAD BEEN AUGMENTED BY RECENT VERY SIZABLE INCREASES IN WORLD PRICES OF COMMODITY IMPORTS. IN RESPONSE UNDP REPS SUGGESTION RE IBRD DEVELOPMENT OF SOME FORMULA FOR AID DONORS AS A GROUP TO CHANNEL ASSISTANCE INTO BOTH PRODUCTION AND CONSUMPTION RATHER THAN CONSUMPTION ONLY, HAWKINS, THOUGH AT FIRST RATHER NEGATIVE, SOUNDED WILLING TO CONSIDER SUCH A NOTION IN DRAFTING HIS FINAL REPORT.

9. HAWKINS SAID THAT NO DEFINITE TIMETABLE FOR AID GROUP MEETING HAD BEEN AGREED TO, BUT BECAUSE OF NEED TO SUPPLEMENT DATA ALREADY COLLECTED AND CIRCULATE REPORT AFTER COMPLETION, IT DID NOT APPEAR POSSIBLE FOR AID GROUP MEETING TO OCCUR BEFORE MARCH AT EARLIEST AND THEN AGREED THAT APRIL OR MAY SOUNDED REASONABLE. IN ANY CASE, IMF TEAMS FORTHCOMING VISIT AND CONCLUSIONS WOULD ALSO BE STRONG FACTOR IN DONORS DELIBERATIONS. END SUMMARY OF AID DONOR GROUP MEETING.

10. AMB VAN HOLLEN MET WITH WORLD BANK TEAM DEC 18, WITH AID REP (ACTING) AND ECONOMIC OFFICER ALSO PRESENT, AND SET FORTH HIS ASSESSMENT OF CURRENT POLITICAL-ECONOMIC SITUATION IN SRI LANKA.
BYRNE

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